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C O N F I D E N T I A L SECTION 01 OF 03 BUDAPEST 000954

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DEPARTMENT FOR EUR/NCE JLAMORE  
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SUBJECT: CAMPAIGN FINANCE REFORM IN HUNGARY: ROAD TO  
NOWHERE

Classified By: Political/Economic Counselor Eric. V. Gaudios,  
reasons 1.4 (B & D).

¶1. (C) It is an open secret among Hungarians that their politicians spend ten times more than the legal limit allowed for a campaign, often circumventing the law by conducting transactions with "bags full of cash" before every election. But this political imperative levies a high price on businesses and leaves a low level of trust among a cynical public. While there appear to be sincere efforts on the part of some leaders to change the system, the parties all benefit from the status quo and all want to win the next election at all costs. Proposed campaign finance reform legislation has been stuck in Parliament for more than a year, and an active press that would otherwise investigate abuses treads lightly on the issue given the strong ties between parties and publications. A public awareness campaign by civil society groups this fall hopes to challenge public ignorance and public apathy, but it may come too late to have a significant impact on the next elections. End Summary.

AT THE ROOT OF CORRUPTION

¶2. (SBU) Transparency International (TI) cited campaign and political party financing as first on its list of recommendations for fighting corruption in its December 2007 report on Hungary. TI - which downgraded Hungary eight places on its corruption rating scale this week - believes there is a quid pro quo between politicians elected into office and companies that donate to their campaigns in exchange for "favorable government policies and contracts." Furthermore, as a former MP and Chairman of the Parliamentary Committee on Constitutional, Legislative, and Judicial Affairs, Dr. Peter Hack notes, every small- and medium-sized company would acknowledge that they need government connections in order to get started ...and to stay in business.

¶3. (SBU) Unconsciously echoing the observation of FIDESZ Party President Viktor Orban, State Audit Office First Associate Director General Dr. Janos Elek believes the problem is not party financing but rather with campaign funding. Lamenting that most observers confuse the issue, Elek said political parties are still financed mostly by the central government and that it is principally during an election cycle when things get out of control. Since party financing legislation was passed in 1989, parties garnering more than one percent of votes in an election receive public funding proportional to the percentage of votes received. (Note: A recent media report stating that the threshold had been reduced from five to one percent is erroneous and highlights public confusion about the issue. End Note.)

¶4. (C) Under the current system, political parties with more than one percent of the vote are entitled to state funds, in addition to private fundraising. There is no limit on how

much parties can fundraise, and while they can not receive donations from foreign governments, they can from "foreigners." As political scientist Zoltan Kiszelly notes, this could motivate neighboring countries from "Romania to Russia" to get involved. While there is no limit on how much money a party can raise, there is a USD 6,000 cap on how much a candidate can spend for an election.

¶15. (C) Most observers believe the campaign spending limit per candidate is outdated and unrealistic. As a comparison, center-right political think-tank Neozopont Intezet points out that placing a single, 1.5 minute television ad alone costs around USD 9,000. Eotvos Karoly Public Policy Institute Professor Zoltan Miklosi points to studies showing that major party candidates actually spend ten times the current legal limit, raising money off-the-books to exceed the legal cap. Oriens Consulting Group Managing Partner Krisztian Orban (strictly protect) comments that "bags full of cash" are distributed before every election. Hack observes that businesses and individuals are unlikely to change corrupt practices so long as they see that politicians are not following the law. In a candid discussion with MSzP Parliamentary Faction Leader Ildiko Lendvai, corporate representatives warned her that foreign investors see Hungary "moving in the wrong direction" on transparency in general and on party financing in particular.

#### FIVE-PARTY SQUABBLE

¶16. (C) Neozopont Intezet organized a closed-door roundtable in August 2007 for the five parties represented in Parliament to discuss and come to an agreement on campaign finance reform.

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The initiative failed. According to Neozopont Intezet Head of Research Agoston Mraz, the MSzP wanted to raise the spending limit while FIDESZ argued for banning TV ads instead. Miklosi also doubts that the small parties would accept raising the limit because it would unfairly disadvantage them. Despite the discussion of these technicalities, Kiszelly believes the country's fundamental political divisiveness will prohibit the two-thirds majority in Parliament required to make significant changes to current law. Without "outside pressure," Kiszelly does not believe there will be any change. Indeed, both FIDESZ and MDF insiders tell us flatly that there will be no chance of an agreement which would "give this government a perceived victory."

¶17. (C) MSzP MPs Jozsef Tobias and Laszlo Puch submitted campaign finance reform legislation in October 2007. A year later, Parliament has yet to bring the bill up for discussion due to a lack of political consensus. Freedom House Europe Deputy Director Balint Molnar believes there is a genuine desire on the part of these two MPs to change the system. Having spoken to Tobias, he believes that their involvement in the party's finances has shown them how dirty the system is. (Note: Puch is widely known as the Socialists' bag man, and even opposition figures express grudging admiration for his long-time ability to game the system. End Note.) The legislation calls for increasing the spending limit by tenfold, increasing oversight powers of the State Audit Office (SAO), and the creation of a designated transparent bank account for campaign spending.

¶18. (SBU) But Molnar cautions that the bill needs to be reviewed by independent lawyers to close any loopholes, and Kiszelly believes that the draft legislation lacks appropriate penalties. Corvinus University Lecturer Ivan Gabor is also skeptical that the SAO would investigate politicians when its President is elected by Parliament. Even SAO President Dr. Arpad Kovacs acknowledges that it's difficult to "bite the hand that feeds you." In any case, as Hack notes, while "there is intent to fix the system, there is even greater interest in winning the next election," leading him and most observers to conclude that the campaign

finance reform bill will go nowhere.

#### A LESS THAN FULL-COURT PRESS

¶9. (C) Commenting that the media is also not interested in changing the system, Kiszelly said it benefits from the advertising bonanza in political ad revenues. He also cautions that the media is prone to political influence through long-standing relationships between companies and politicians. Giving the example of how one paper had retracted a politically sensitive article, Kiszelly said the politician involved asked a construction company that buys ads in the paper to request that the article be withdrawn, and it was. Mraz concurs, citing TV2's receipt of USD 3.7 million for a suspect "Promote the EU" campaign. One MTI journalist, however, counters that the real problem concerns business confidentiality laws, which prevents the press from doing investigative journalism without the risk of being fined.

#### A PUBLIC AWARENESS CAMPAIGN

¶10. (U) Civil society groups and NGOs have launched an initiative to raise public awareness about the need for campaign finance reform, including a new website at <http://www.kampanyfinanszirozak.hu>. Public awareness ads will be placed in some dailies and weeklies starting this fall. Mraz believes the campaign is the only option left to bring pressure to bear on the parties to forge a political consensus on the issue. Molnar said that time is running out since changes to the law of this nature are not allowed a year before elections. He believes the next six months will be critical to gain popular support for campaign finance reform.

¶11. (C) Kiszelly doubts whether the public really cares or ever will. There have already been a number of high-profile scandals in the press, but he sees no changes as a result. He sees little lasting impact to the K&H bank scandal, which he considers the biggest "party financing scandal in Hungary's history." He believes both major parties are guilty of awarding government favors based on campaign donations, and suggests that neither will throw the first stone.

#### COMMENT: CAMPAIGN FINANCE REFORM, A FIRST STEP

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¶12. (C) The current campaign financing system in Hungary is not sustainable. Without changes to increase transparency, the murky relationships between government officials and the companies that finance their campaigns will only further corrupt behavior and practices in the country. Without five-party consensus, it is unlikely that change will be coming anytime soon...or if the changes now under discussion would fix the system. But we are working with like-minded embassies and civil society to encourage a first step at a time when others in the region are moving forward and Hungary is falling further behind. End Comment.

Foley